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DECEMBER, 1948

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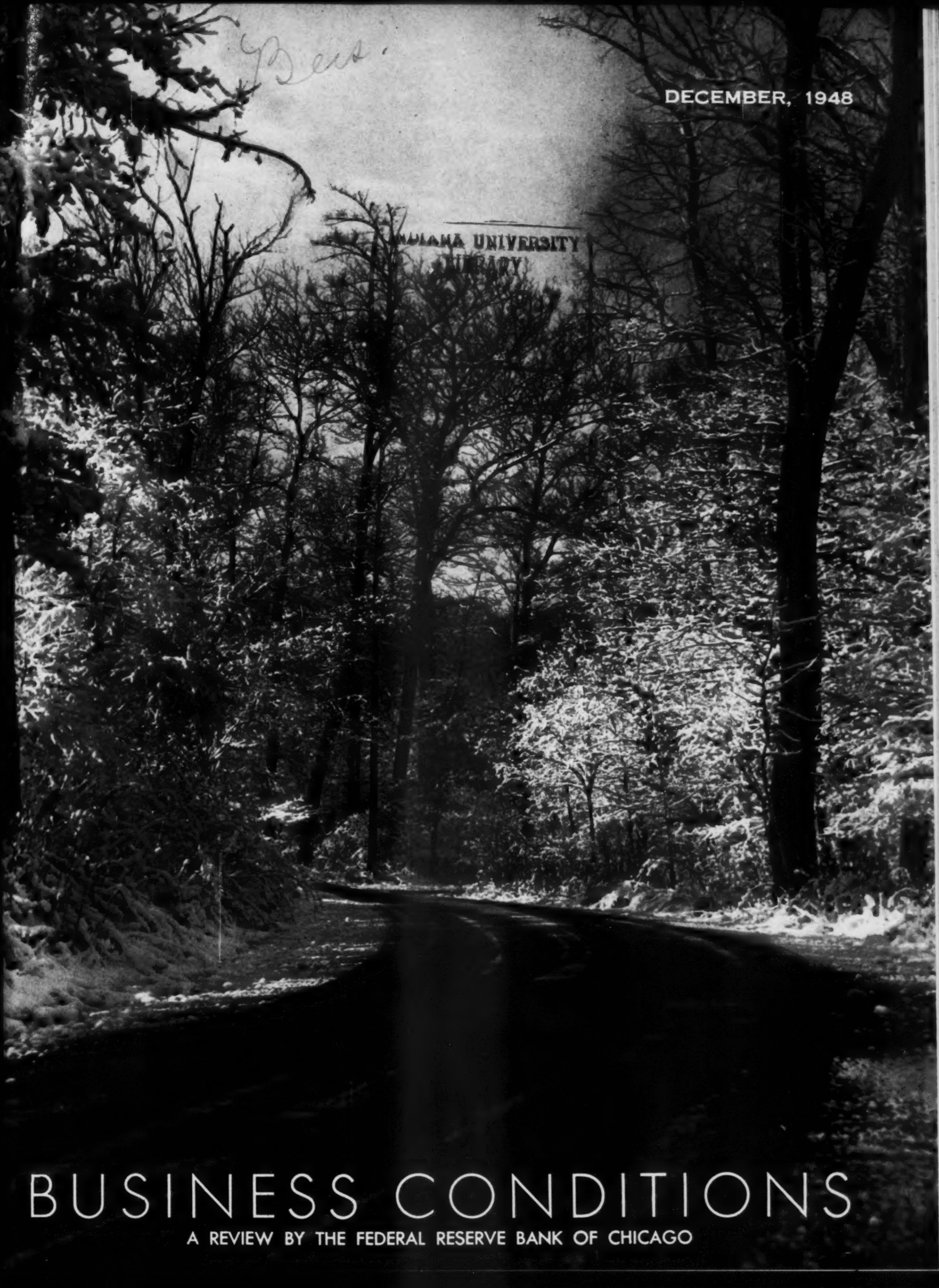


BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Avalanche of Corn

Livestock Production to Increase

American farmers commonly "feed-up" most of the available supply of feedstuffs during the period between harvests. The supply of meat, milk, eggs, and other livestock products made available to consumers in 1948 resulted largely from crops harvested in 1947 and in this instance from some liquidation of herds and flocks on farms due to the feed shortage. Record production of feed crops this year has already resulted in sharp price declines for feed grains and in time will result in increased supplies of animal products. While some small increase in supply of certain livestock products has already occurred, consumers should not expect to reap full benefit of the exceptional 1948 production of feed grains before the fourth quarter of 1949, or later.

Even then supplies of livestock products may not respond to the increased production of feeds as much as otherwise would be expected due to the price support program for feed grains and a fear on the part of livestock producers that prices of livestock and livestock products might break sharply before the increased supplies are marketed. It is generally expected that farmers will place substantial amounts of their grain supplies in storage, take the Government loan price, and thereby avoid the risk and effort involved in expanding their livestock production operations. No doubt this will be an important consideration for some farmers, and the *rate* of expansion in livestock production will be curtailed somewhat as a result of the Government price support program for grains. Although reduced from the wartime peak, livestock production on farms still exceeds prewar, five per cent above 1940 for the year ended September 30 and estimated to be seven per cent above 1940 in the year which began October 1, 1948. The significance of these increases is lessened, of course, by the rise in population and income since 1940.

RECORD FEED SUPPLIES

Of outstanding importance in the feed situation is the corn crop which normally accounts for about 72 per cent of the total production of feed grains. Corn production in 1948 is estimated at 3.65 billion bushels (102 million tons), 54 per cent larger than the 1947 crop, and the largest of record. Production of all feed grains totaled 137 million tons, by far the largest ever harvested. Supplies of all feed concentrates, including other grains for feed and by-product feeds, totaled about 168 million tons, a fourth larger than the 1947-48 supply, and the largest of record in relation to the number of livestock likely to be fed.

With fewer livestock on hand than a year ago and the record production of feed grains, the supply per grain-consuming animal unit for the 1948-49 feeding season will be about 1.07 tons, 23 per cent more than in the preceding year and 21 per cent more than the 1937-41 average of .89 tons. The supply of hay was estimated in October at 114 million tons. This is the smallest since 1941, but it is near record in relation to the number of hay-consuming livestock on farms and is not expected to be a limiting factor in livestock production in 1949.

Largely as a result of increased supplies, prices received by farmers for feed grains have declined sharply and in mid-November were 42 per cent lower than a year earlier. The price of corn has declined more than seasonally in recent months and averaged $1.21 at farms in mid-November. This was 23 cents per bushel below the national average loan rate. Prices of oats, barley, and grain sorghums have likewise been near or below loan rates, as reported in the November issue of *Business Conditions*. These prices will result in substantial quantities of feed grains being placed under Government loans and purchase agreements.

Prices of by-product feeds including the high protein meals have declined also, most of them ranging from 25 to 35 per cent below prices prevailing a year earlier. The large crops of soybeans, flaxseed, and cottonseed assure abundant supplies of protein supplements for the feeding year ahead, even though a substantial volume may be exported. Feed grain and by-product prices are expected to continue at about present levels, at least through the coming winter months.

FAVORABLE FEEDING RATIOS

The decline in feed prices has resulted in improved livestock-feed price ratios—price relationships which are rough indicators of the profitability of converting feeds into livestock products. Such price ratios generally are expected to be about as favorable to livestock producers in 1948-49 as in any of the last several years, some of which were very favorable for livestock production. Anticipated increases in livestock production, however, particularly in hogs and poultry, will strengthen the demand for feeds in the latter part of 1949 and may result in some reduction in the livestock-feed price ratios at that time unless feed crop production is at least average in 1949. The U.S. average hog-corn ratio at farms in November was 18.0, compared with 11.1 a year earlier. The 1927-46 average for November was 13.0. Historically, farmers have increased the number of pigs raised when the ratio of hog-to-corn prices was larger-than-average and decreased the number raised when the ratio was below the average. With the supply of corn available this year and the favorable hog-corn price ratio an increase of about 25 per cent in the number of pigs farrowed next

(Continued on Page 8)

Soft Spots in Midwest Business

Changes in Consumer Spending Weaken Some Lines

The over-all strength of business in the Seventh Federal Reserve District this year has tended to obscure some "soft spots" in the business picture which now warrant attention because of their implications for the future. In recent months more and more individual lines of goods and services have begun to experience declining sales, scattered layoffs, and losses, with some new rise in failures. These soft spots—industries in which boom conditions have disappeared—appear to be spreading gradually, and are now to be found in fields employing roughly 15-20 per cent of total District workers. While not concentrated in industries for which the District is best known, nor in any specific industrial area, nevertheless, such weaknesses do affect particular businesses, financial institutions, and individuals.

CONSUMERS PRICE CONSCIOUS

The time definitely seems to be returning when ability to cope with consumer price consciousness is the most important determinant of individual business success or failure. Most business managements, moreover, face new, and no doubt continuing, tests of their preparedness to compete successfully for consumer dollars. The over-all business level and short-run outlook remain favorable, but the period of "assured" sales for most products appears to be steadily nearing an end. Too frequently, however, this return to more normal sales conditions, including the recurrence of seasonal declines, is being interpreted as the beginning of a badly depressed era for business. Rather, it seems more probable that these soft spot developments indicate that the almost inevitable—and desirable, from an anti-inflationary standpoint—shift toward more "normal" market conditions is getting under way after several years of inflationary boom.

SELECTED RETAIL STORE SALES AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME

Kind of Business	1939	1941	1947 First half	1947 Second half	1948 First half
Food groups	14.5	13.7	17.1	17.0	17.1[1]
General merchandise groups	9.2	8.6	9.2	9.2	8.9
Motor vehicle dealers	7.2	8.5	6.7	7.2	8.0
Eating and drinking places	5.0	5.2	7.4	7.0	6.8
Building materials	2.5	2.6	3.1	3.5	3.7
Women's apparel and accessories	1.9	1.8	2.4	2.4	2.4
Furniture and housefurnishings	1.7	1.9	2.1	2.2	2.1
Drug stores	2.2	2.0	2.1	2.1	2.0
Household appliances and radios	.8	.9	1.4	1.5	1.4
Hardware	.9	1.0	1.2	1.3	1.3
Men's clothing and furnishings	1.2	1.2	1.4	1.4	1.3
Liquor	.8	.8	1.1	1.1	1.0
Auto parts and accessories	.7	.8	1.0	1.0	.9
Farm implements	.5	.6	.6	.7	.8
Shoes	.9	.8	.9	.9	.8
Family and other apparel	.7	.7	.8	.8	.7
Jewelry	.5	.6	.8	.7	.7

[1]Data since mid-1948 indicate that this ratio has dropped to less than 16.5.
SOURCE: U. S. Department of Commerce.

Since "marginal" business organizations are encountering increasing sales and financial problems generally, it cannot be said that the soft spots are confined to luxury lines, although it is in this general category that most business difficulties have arisen during the past year or more. Some goods which can be classified only as necessities also are showing declining sales and glutted inventories because production has more than caught up with previous backlogs of demand. The two basic and interrelated causes underlying the soft spots, therefore, may be given as: (1) consumer budget stringencies and (2) the end of abnormal demand backlogs.

The effects of consumer budget stringencies first began to be felt in those business lines which had experienced abnormally high war and initial postwar demand because of rising incomes amidst a relative scarcity of competing goods for sale. Thus, jewelry stores, furriers, and night clubs, for example, were adversely affected as far back as two years ago when other more essential goods and services began to become available again on a more general scale. Later, further rises in living costs brought about decreased expenditures in allied, less essential consumer fields such as hotels and commercial services, eating and drinking places, and, during the last few months, in bakeries and delicatessens.

Causes for the weakness in many lines can be traced directly to recent changes in consumer expenditures relative to income (see table). The war years clearly distorted the consumer buying pattern. Many durables which represented a substantial portion of prewar consumer budgets either were not produced at all for civilian use, or were produced in limited numbers. This shortage of durable goods brought about sharply increased savings in all forms, but also caused a disproportionate expenditure for nondurables and available luxury items. The acquired wartime buying pattern necessarily has been altered as consumer durable goods production has increased and prices of essentials have continued to rise.

Sales in the following business lines have declined nationally and in this District during the past year as a percentage of total disposable (after taxes) income: jewelry; restaurant and entertainment services; drugs; shoes; men's clothing; radios; automobile accessories; general merchandise establishments, including department stores; and since mid-1948, food.

Stepped-up production and disappearing backlogs have caused sales-stock difficulties in many fields, e.g., leather goods and luggage, office machines, paperboard products, some chemicals, and in professional and scientific instruments in the Seventh District during the past

year. Radio producers suffered declining sales and developed excessive inventories as a result of greatly enlarged production and mounting price resistance, but this industry has made a partial "comeback" by converting production lines and sales emphasis to television and AM-FM receivers and transmission equipment. Recent declines in orders and in retail sales are reported widely in furniture, and may indicate a cessation of inventory building in this industry. In some instances high production costs have caused retail prices to remain well above levels likely to move capacity outputs into consumer hands, eventually leading to production curtailments and some unemployment before appreciable price reductions are made.

RESIDENTIAL CONSTRUCTION LAGS

A further soft spot appears to be developing in the construction of dwelling units, in which all Seventh District states except Iowa have been lagging behind the national trend. Hundreds of finished but unsold houses in urban areas, where many families of moderate incomes are living under sub-standard housing conditions, testify to the problems of pricing houses to meet the market demands. The volume of homes completed in 1948 constitutes an all-time record both in number of homes and in aggregate value. However, the number of new starts has declined more than seasonally in recent months, chiefly as a result of greater inability to match costs and financing terms for price conscious buyers.

Because of the unusually high costs prevailing in this District and because of heavy concentration in nonresidential construction, however, the gain in total valuation of *all* building in the District's urban areas has been more nearly comparable with the national increase of approximately 43 per cent over 1947. Therefore, no general price or volume weakness in the building supplies field is evident, and in certain materials, e.g., cement, steel pipe, and some hardware items, acute shortages still persist. Nevertheless, any further drop in residential starts seems likely to result in some general softening in many building materials lines.

STRENGTH IN RURAL AREAS

It is difficult to generalize about soft spots in Midwest business geographically. Most of the lines that show current weakness in one part of the Seventh District also are known to be experiencing sales problems in other sections as well. Weaknesses in sales to date, however, appear to be somewhat greater in metropolitan areas than in rural communities, which seem to be holding a somewhat more steady level. Nevertheless, trends are quite mixed, for among different cities of the same general size both employment and sales developments often are noticeably divergent with no neat rural-urban pattern emerging.

Despite the strong trends in over-all District employment (see *Business Conditions* for November 1948), some evidence is accumulating of sluggish business activity in certain scattered medium-sized and smaller industrial cities. Reports from such widely separated places as Kokomo and Logansport, Indiana; Muskegon, Michigan; and Manitowoc, Wisconsin, indicate localized employment weaknesses. In each of these communities, the employment declines—more notable for their persistence than for their absolute size—are attributable chiefly to reduced operations by a few firms which have been experiencing falling orders.

Among the major centers of the District, Indianapolis and Milwaukee in recent weeks have had somewhat lesser retail sales declines from year-ago levels than have occurred in Chicago, Detroit, or the District as a whole, but no persistent over-all drop in employment in these latter cities has taken place. While few new department store sales records may be established during the current Christmas buying season, sales nevertheless are being maintained somewhat better in the District's smaller and medium-sized cities than in the largest centers. This situation probably reflects the impact on consumer expenditures in outlying sections of the seasonal rise in farm income, which has been well maintained despite important price reductions in certain farm commodities this year.

SOME OBSERVED EFFECTS

While the number of business failures in the Seventh District currently is about 45 per month, or 35 per cent of the prewar monthly average, nevertheless the over-all trend is clearly upward, indicating that the soft spots are resulting in an increasing number of bankruptcies and business deaths. Since the end of the war, business failures in this District have quadrupled compared with a fivefold rise in the nation generally.

In both trade and manufacturing, steady increases in the number of failures were evident in the District through the first quarter of 1948. Subsequently, bankruptcies in wholesale and retail trade have moved up sharply, while a small decline has occurred in manufacturing failures. This latter development clearly points to the vulnerability of the greatly expanded sales outlets since the end of the war and reflects the more immediate adverse effects of consumer price consciousness and shifts in buying patterns upon sales organizations than upon producers. However, it is not to be expected that any particular division of business will continue indefinitely to fare better than another when a single product or class of product faces a readjustment.

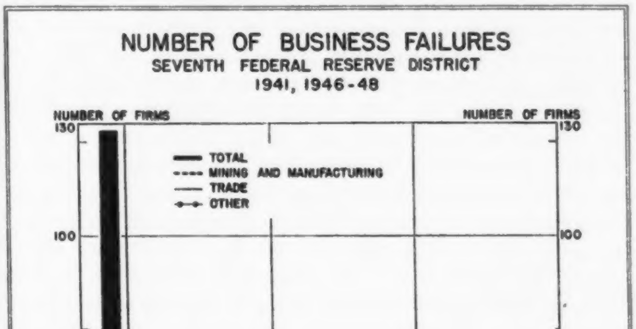
Although the initial effects of slackened demand for particular goods and services are adverse for most or all businesses involved, under present conditions of high employment and personal income, some recovery may get under way before long following price, cost, quality, and inventory readjustments. Such recovery may be slight and very slow for less essential goods and services because of a seemingly more permanent shift in consumer buying away from these items. Progress toward restoring sales volume is usually more rapid, however, among essential goods which are reoffered at lower prices or in a manner which stimulates their appeal to consumers

interested only in a "good buy." The postwar heyday in entertainment and liquor sales, for example, may definitely be over, but consumers have been, and are, responding well to price reductions on quality products, e.g., many apparel items, radios, and leather goods.

Actual price reductions have been quite limited to date. More, however, may be in the offing. Reestablishment of buyers markets, or at least more balanced markets, in some lines has led to extensive use of merchandising techniques aimed at avoiding, but often just preceding, direct price reductions. Retailers of foods and furs, for example, have begun to use the coupon method of cutting prices without actually changing the price tag. Improvements in quality unaccompanied by price increases also indicate a yielding price structure. All but the goods in shortest supply are being sold in one manner or another on a well advertised or "sale" basis, but, as indicated, with little actual price reduction thus far.

FURTHER WEAKNESSES AHEAD

Since the Midwest economy, as the nation, appears to be moving gradually in the direction of prewar income-spending relationships as regards many individual goods and services, further soft spots are to be expected as additional items begin to feel the impact of this broad economic force, including the end of backlogs of war and postwar deferred demands. Obviously, it is not to be expected that prewar income-spending relationships once again will prevail in any exact sense because many lasting changes in consumer buying patterns unquestionably have resulted from the war. It is reasonable, however, to anticipate some return movement toward such relationships as unusual war and postwar market influences subside. While the scope or sequence of coming readjustments cannot be foreseen with any real precision,



some insight as to the general product groups most likely to be affected may be had from an appraisal of the degree of current deviation from the prewar income-spending norms.

According to national data prepared by the U. S. Department of Commerce, covering the first half of 1948, supplemented by less comprehensive information for the Seventh Federal Reserve District, consumer expenditures at retail relative to disposable personal income appear to be farthest "out of line" from prewar relationships in the following broad product classes: appliances, farm implements, building materials, hardware, jewelry, furniture, women's apparel, and liquor. As previously seen, soft spots have begun to appear in several of these lines already, and more presumably may be expected.

Very recently in this District, scattered price reductions, probably indicating further soft spots developing, have been reported in some lines long classified as being in short supply. These include fuel oil, brass plumbing goods, some iron castings, and used automobiles. In some of these instances, the price reductions appear to have been largely the result of action by a financially distressed seller, but in others the condition seems too widespread not to represent a more general sales problem.

Current expenditure plans for heavy capital equipment in this District suggest some moderate decline for next year from present levels. In large part, the expected falling off is the result of completion of huge postwar expansion programs, particularly among manufactures. To some lesser extent, the debt positions of individual companies and fear of future corporation tax increases appear to be new restraining factors. Nevertheless, whatever soft spot may be developing in plant and equipment outlays is not expected to be far-reaching or have a sharply depressing influence upon business generally in the months immediately ahead because of the continuing strength foreseen in public utility, railroad, and Government expenditures for heavy equipment.

The attention given here to weak spots should not obscure the fact that business as a whole and employment in the Seventh District continue at, or very near, record peacetime or all-time levels. Although scattered layoffs are occurring, to date reabsorption of workers in most areas has not been a difficult problem. As yet, the many weaknesses reported have failed to have any serious effects upon total business and consumer incomes or expenditures.

In short, Seventh District business faces further readjustments which will affect many lines, but such developments will be a continuing manifestation of a return to more normal competitive conditions. The months ahead promise to continue active for general business relative to past periods, although not necessarily record breaking for the postwar period. The success of individual lines will depend more and more on achievement of price-quality combinations acceptable to consumers. This can be accomplished only by redoubled efforts to improve efficiency and reduce costs.

Referenda on State and Local Fiscal Policies

Bonus Borrowing and Pension Increases Secure Voter Approval

Popular participation in the formulation of state and local governmental policies is not exclusively a vicarious experience associated with the election of executive, legislative, or judicial officials. Specific issues, often in the form of tax and expenditure alternatives, are frequently submitted directly to the voters of a locality or an entire state. In these state-wide referenda the range of interest exhibited is limited only by the broad character of state and local responsibility for public services.

At the November elections propositions to amend state constitutions, to express advisory opinions on legislative proposals, and to approve initiative petitions were submitted to the voters in two-thirds of the states. In all, 265 separate policy preferences were sought. These were far from evenly distributed among the 37 states. In Louisiana, for example, voters were confronted with 41 separate proposals, in South Carolina with 27, in Georgia with 17, and in California with 19. In other states the number of propositions ranged from two to 11.

In Alabama, Georgia, and South Carolina all or nearly all of the proposals dealt with matters of concern to individual local governments, e.g., increasing debt or tax rate limits, changing boundaries of school districts, levying special assessments, incurring indebtedness, or altering the form of local governmental organization. The large number of propositions in Louisiana arose from the statutory detail contained in the state constitution; matters that are ordinarily the exclusive concern of the legislature in most states require voter approval there.

There are three principal methods by which propositions can be brought before the electorate. Participation by the voters in the constitution-revising process is most common. All states except Delaware provide for popular ratification of constitutional proposals, although only one-fourth of the states permit amendments to be submitted by the initiative process. Since 1938, approximately 1,100 amendments to state constitutions have been voted upon. However, many of these constitutional amendments affect subject matter that would be treated by statute in the states of the Seventh District. The states in which there have been the largest numbers of constitutional proposals are those whose constitutions are two to five times as long as that of the typical state.

A more direct participation by the voters occurs through use of the initiative and referendum in connection with proposed legislation. The initiative and referendum, which permit specified numbers of petitioners to place legislative proposals on the ballot for submission to the electorate, are found, for state-wide purposes, in fewer than half of the states, most of which are located west of the Mississippi River. In practice, the voters in the Pacific Coast region have made much greater use of the initiative procedure than those in any other area.

Referrals by the legislature to the electorate is the third method of sampling public sentiment. In all, there have been fewer than 250 state statutory proposals voted upon in the 11-year period from 1938 to 1948, an average of less than one per state per year.

Questions referred to the voters reflect certain institutional characteristics of state government as well as a sampling of public opinion on major issues. If all proposals considered in November are screened to eliminate those not significantly concerned with the financial policy, 150 propositions were considered. Many of these had to do with legislative details which characterize the older state constitutions. Illustrative are several propositions to adjust the compensation of elected state officials, members of the judiciary, legislators, and constitutionally designated local officials. This general type of proposal combined with issues primarily of local interest account for well over half of the fiscal policy propositions. Thus if constitutions in these states dealt only with general principles of state government, the number considered would probably have been reduced by more than half.

ISSUES OF FINANCIAL POLICY

The content of the financial policy referenda can be conveniently divided into five categories: proposals affecting tax policy, borrowing policy, spending policy, state-local relationships, and local governmental organization. Of primary interest in taxation were proposals in Arkansas and Texas denying the state power to tax real and personal property for state purposes. The Arkansas voters rejected this proposition, but the state legislature had already given statutory effect to the object by repeal of provisions for state levies on property effective December 31, 1947. The Texas voters endorsed an amendment which prohibits the state from levying ad valorem taxes for general revenue purposes after January 1, 1951. Although a majority of the states have abandoned the property tax as a source of state revenue, few have made the step as irrevocable as writing it into their constitutions. The Oklahoma constitution was amended in July 1948, to ban ad valorem taxes for all state purposes.

A series of proposals involving extensive property tax reform were rejected in New Hampshire. Incidental to proposals involving other state policies it is expected that Kansas will enact a liquor tax along with the repeal of its prohibition clause and that Colorado will enact a pari-mutuel tax along with the legalizing of horse racing. The changes in tax structure entailed by the approval of veterans' bonuses are mentioned elsewhere.

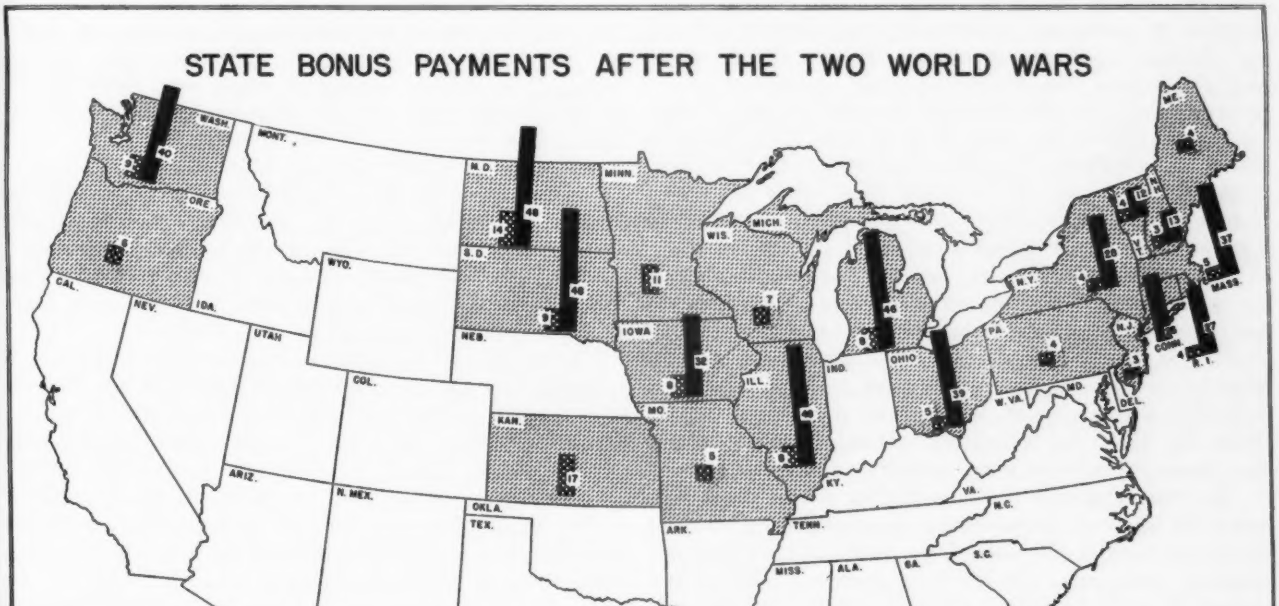
Since nearly every state constitution prohibits borrowing entirely or requires the approval of the electorate

for any long-term bonds, there are usually proposals for approval of state loans at every election. In the post-war period most of these have to do with veterans' bonuses. Other borrowing proposals are relatively insignificant. West Virginia authorized a 50 million dollar issue for secondary roads, Louisiana 70 million dollars for highways and bridges, New Mexico a 2.5 million dollar issue for state institutions, and Rhode Island 6.1 million dollars in issues for airports and educational institutions. A bond issue for educational purposes was also approved in Montana. This non-bonus borrowing of somewhat less than 130 million dollars is in contrast to 175 million dollars in plans disapproved by the voters of three states. Proposals rejected were for housing in California, for state institutions and highways in New Jersey, and for reforestration in Oregon.

Other than the bonus plans the most significant issues considered in the field of state expenditures had to do with the liberalizing of pensions on initiative petitions adopted by California, Oregon, and Washington. The rather unexpected approval of these proposals has been accompanied by some confusion as to their cost and conditions under which they will be put into effect. No doubt the increase in the cost of living in the interim (one-two years) since these legislatures considered the scale of benefits had something to do with popular sentiment for change. In California and Washington minimum payments to the aged were increased from $50 to $60 a month and were initially established in Oregon at $50. Monthly pensions to the blind were raised from $60 to $75 in California and from $50 to $60 in Washington.

More important than these price level adjustments which may have only anticipated legislative action by a few months are relaxation in eligibility requirements and changes in administrative procedures. For example, in California, age and residence requirements for the aged are lowered, income and property exemptions increased, county participation in the plan eliminated, a prior claim on state funds designated, the pressure on responsible relatives for support modified, and the Director of the Department of Social Welfare made an elective office. The initiative proposal which took the form of a constitutional amendment even went so far as to name the first incumbent of the position of Director.

Changes affecting administrative arrangements and the qualifications for aid in Oregon and Washington were somewhat less drastic and the proposals took the form of statutes rather than constitutional amendments. The additional outlays involved in the higher level of benefits and altered administrative arrangements were, during the period of public consideration, in dispute and still have not been determined. The Washington initiative measure appropriated six and one-half million dollars which, it is estimated, will increase pension costs by 15 per cent. The amount involved is not regarded as a serious addition to the state's financial responsibilities.



The status of the Oregon proposal is still in doubt and may be modified by legislative action in January. In its present form, however, it has been variously estimated to increase pension costs, now at the 11 million dollar level, from two to 10 times. The California amendment is said to involve increased annual expenditures of from 30 to 120 million dollars. It would appear, however, that in the long-run the principal effects of this amendment are in the administrative procedures it introduces, the rigidities in state fiscal policies it may impose, and the precedent it provides (along with the votes on soldiers' bonuses in other states) for future efforts at initiating or amending the terms or amounts of various kinds of pensions, benefits, and subsidies.

The earmarking of particular revenues for special purposes continued to be a popular topic for state-wide referenda. Attempts to repeal constitutional amendments providing for the earmarking of receipts from specific taxes for special purposes were defeated in Michigan and Colorado. The Michigan provision, Article X, Sec. 23, adopted at the 1946 general election, is concerned with maintaining a high level of state aid for schools through segregation of a portion of the receipts of the sales tax for this purpose. The amendment provides that (a) the yield of a half-cent sales tax (one-sixth of the present three per cent levy) will be distributed among the cities, villages, and townships in proportion to their population, (b) the yield of another half-cent sales tax will be distributed among the school districts in proportion to the number of school-age children in each district, and (c) in addition to all constitutional allocations of funds to school districts, the legislature must appropriate from general funds for school aid an annual amount equal to approximately 45 per cent of total sales tax revenue in the preceding fiscal year. The total amount of funds segregated for aid to schools and local units is almost four-fifths of sales tax receipts, and in fiscal 1948 amounted to about 40 per cent of all state revenue.

The Colorado provision, Section 2 of Article XXIV of the Constitution, adopted in 1936, provides that 85 per cent of all revenue from the retail sales tax and all excises, license fees, and taxes upon alcoholic beverages shall be paid into the Old Age Pension Fund and expended only for old age assistance. In the fiscal year ending June 30, 1948, approximately one-third of total state tax revenue was thereby segregated for old age assistance.

In Massachusetts the segregation of highway user taxes for highway purposes was approved thus bringing to 21 the number of states that constitutionally earmark highway user taxes for highway purposes. This policy inched along in Louisiana when the portion of the nine cent gasoline tax earmarked by the Constitution for highway purposes was increased from five cents to 5.5 cents. Florida voters, however, rejected a constitutional amendment which would have earmarked the entire fuel tax for roads in contrast to the present statutory allocation of six cents out of seven.

The number of issues affecting state-local relations fails to reflect the critical character of this problem. The rejection of a Michigan proposal, discussed above, was a victory for the proponents of aid to the cities. But California rejected a plan to require the state government to reimburse local units for the real property tax equivalent on exempt property. Minnesota voters rejected a proposal to increase the local share of motor fuel taxes. In Missouri a one-and-one-half cent raise in the gas tax all for the municipalities and counties was rejected (it would also have denied these units the power to levy their own gasoline taxes).

Generally, the proposals affecting local government organization and expenditures were aimed at relaxing restrictions on taxing and borrowing power. In two states there were proposals bearing on reorganization of local school districts and in one of the southern states a proposal to create new types of taxing units and to enlarge the functions of others.

Various units of local government also referred for voter approval proposals which involved bond issues aggregating 900 million dollars. Of these, about 75 per cent were authorized. In the Seventh District states local borrowing proposed amounted to less than 12 million dollars.

VETERANS' BONUSES

Among the purposes for which states have been willing to mortgage their future revenue sources, cash bonuses to veterans are of first importance. Nearly 70 per cent of postwar state borrowing has been to that end; in the November balloting 63 per cent of newly authorized borrowing was for bonuses. This election brought to 14 the number of states who have already made or have positive commitments to make cash disbursements to veterans of World War II.

In Iowa a referred measure authorizing an 85 million dollar bond issue to be serviced by property taxation was approved. Iowa's outgoing Governor has temporarily halted steps toward sale of these bonds pending a consideration by the Legislature of an alternative plan to utilize a portion of a substantial balance in the state treasury for bonus payments.

In Louisiana by constitutional amendment a bonus estimated to aggregate 60 million dollars in benefits was endorsed. It will be paid from the proceeds of a bond issue serviced in turn by a tax on malt beverages of 10 dollars per barrel (the Federal rate is eight dollars, and the average of rates in all states, three dollars).

In Washington an initiated bonus proposal directs the issuance of bonds estimated to total 100 million dollars. These will be serviced by a 10 per cent tax on the sale of tobacco at retail. Constitutional amendments in North and South Dakota, the former approved in a June election, contemplate borrowings aggregating 30 and 27 million dollars, respectively.

The Minnesota electorate amended the constitution of that state to authorize the payment of a World War II bonus and to use the state's credit and taxing powers to finance it. The cost of a proposal likely to be considered by the legislature is variously estimated between 80 and 250 million dollars.

The Indiana electorate acting on a referred measure endorsed the payment of a soldiers' bonus; in indicating the preferred method of finance the voters were divided as follows: 42 per cent for a general sales tax, 22 for a gross income tax exemption, 15 for a real estate tax exemption, 12 for an increase in the gross income tax, and nine per cent for a net income tax. Both exemption alternatives contemplate allowing a specific credit on gross income or property tax bills of veterans, the amount to be determined by the duration of military service and other factors used to fix cash bonuses. These alternatives are methods of financing the payment and not the usual type exemption benefit used by some states in lieu of cash bonuses. Cash benefits to some 385,000 Indiana veterans are expected to approximate 150 million dollars—a sum roughly equivalent to a three-year yield of the gross income tax now levied. This program would have to be financed from current revenues since the state constitution virtually precludes borrowing for state purposes. A constitutional amendment could not be submitted to popular referendum prior to 1951 as it requires approval by two successive legislatures before submission to the electorate.

Proposals for constitutional amendments are being considered in Missouri and Pennsylvania. In the former, a bonus measure estimated to cost 150 to 200 million dollars was approved by the House and is now awaiting Senate action. The disposal of the measure may be influenced by the rejection of a pay-as-you-go bonus plan by the electorate in November. In Pennsylvania, an amendment authorizing a half-billion dollar bond issue requires another legislative approval before it can be submitted to the voters.

The geographical pattern of bonus payments as indicated in the accompanying chart is similar to that following World War I, but the number of veterans and the duration of their military service have made for a marked contrast in the dollar total of benefits. The World War I bonuses averaged seven dollars per capita of the total population at the time the bonus was paid or authorized in the 20 states adopting them. In the states that have already approved World War II bonuses benefit payments amount to 37 dollars per capita. These amounts do not cover the entire cost to the states of bonus programs as they do not include interest on notes and bonds, expenses of determining eligibility of participants and processing the disbursements, nor certain incidental benefits to servicemen. These additional items increased the cost to the states of World War I bonuses by about 50 per cent. Similar costs for World War II programs will not be as large relatively, because of lower interest rates and a somewhat greater reliance on current financing.

As indicated by the accompanying table, bonus disbursements authorized or estimated to date are approaching two billion dollars.[1] If the states of Indiana, Minnesota, Missouri, and Pennsylvania complete their present plans, the total will approach three billion dollars. Moreover, there are additional states where bonus plans will be tardily considered or reconsidered. However, if the experience following World War I is indicative of the timing of action on bonuses following World War II, most of the states that are going to enter this field of expenditure probably have already done so or are well along in their plans.

To date, bonus proposals have failed to pass some phase of the authorization process in 20 states. Five of these disapprovals came in referenda elections—two (Maine and Oregon) entailed borrowing and three (Missouri, Nebraska, and Wisconsin) involved pay-as-you-go financing with new or additional tax levies. The Wisconsin referral sought voter reaction to a three per cent general sales tax which would be in effect until a sum of 200 million dollars was collected. The Missouri measure specified an additional one per cent sales tax, and the Nebraska proposal an additional property tax. In 10 states (Arizona, Arkansas, Idaho, Kansas, Kentucky, Mississippi, Montana, North Carolina, Utah, and Wyoming) no legislative action has been taken.

VETERANS' CASH BONUSES
WORLD WARS I AND II
(Dollar amounts in millions)

State	World War I		World War II	
	Year Authorized[1]	Amount Paid[2]	Year Authorized[4]	Amount Authorized[5]
Connecticut	....	....	1947	51.8
Illinois	1923	55.0	1946	385.0
Iowa	1923	20.0	1948	85.0
Kansas	1923	30.1	....	....
Louisiana	....	....	1948	60.0
Maine	1920	3.3	....	....
Massachusetts	1920	18.2	1946	165.0
Michigan	1921	31.4	1946	270.0
Minnesota	1921	28.0	....	....[6]
Missouri	1921	18.7	....	....
New Hampshire	1919	2.0	1943	6.0
New Jersey	1922	11.0	....	....
New York	1924	45.2	1947	400.0
North Dakota	1920	8.9	1948	27.0
Ohio	1922	28.8	1947	300.0
Oregon	1921	5.0[3]	....	....
Pennsylvania	1934	44.7	....	....
Rhode Island	1920	2.5	1946	20.0
South Dakota	1922	5.6	1948	30.0
Vermont	1919	1.5	1941	3.9
Washington	1922	12.5	1948	100.0
Wisconsin	1920	17.6	....	....
Totals		390.0		1,903.7

[1]The fiscal year in which payments were begun.

[2]Payments, excluding costs of administration, for cash bonuses in all states except Wisconsin. In Wisconsin approximately four million of the total was used to cover cost of educational benefits elected in lieu of cash payment.

[3]Does not include the cost to the state of loans made in lieu of cash payments.

[4]The year approved at a general election or by legislative action.

[5]Consists of the total borrowing permitted, or estimated as necessary, in all states except Massachusetts, New Hampshire, Ohio, and Vermont where estimates of the total cost include surplus appropriation and current financing.

[6]Minnesota voters authorized bonus expenditures—either by borrowing or special taxes in the last election. The amendment is permissive only.

SOURCES: World War I bonus payments compiled mostly from the official state reports; World War II authorizations principally from *The Bond Buyer*.

[1]Following World War I total disbursements to veterans did not deviate significantly from the bond issues authorized. Whether this will be the experience following World War II cannot be ascertained from the information now on hand. Up to the present time, Connecticut, Illinois, and Rhode Island have borrowed the full amount of their authorization. *The Monthly Report of the Illinois State Treasurer* for October 1948 lists payments of 289 million dollars with three-fourths of the claims processed. This seems to indicate that the entire sum authorized will be needed. In New York, estimates reported in *The Bond Buyer* for June 30, 1948, fix the total expenditure at slightly more than 300 million dollars. Michigan, with 40 million of the constitutional authorization unused, had a balance of 17 million at the end of September from previous issues.

AVALANCHE OF CORN

(Continued from Inside Front Cover)

spring would be indicated. The United States Department of Agriculture has urged farmers to increase breedings for the 1949 spring pig crop by 17 per cent. The actual increase realized, however, is generally expected to be materially less than 25 per cent and may not reach the USDA goal of 17 per cent. A relatively small increase in the pig crop would indicate fear of a sharp price decline for hogs before the 1949 spring pig crop is marketed and a willingness on the part of many farmers to forego possible gain from increased hog production for the protection from further grain price declines offered by the Government price support and storage programs.

The amount of feed grains to be converted into beef during the coming winter and spring months still is somewhat in doubt. The beef-steer-corn price ratio at Chicago in October was 20.6, compared with 12.4 a year earlier and the 1927-46 average of 16.3. This ratio is very favorable for fattening steers and would normally result in a heavy movement of feeder cattle to Corn Belt feedlots. Developments to the end of October indicated a volume of cattle feeding about equal to last year. Many farmers apparently refused to risk the sizable loss which might be incurred if beef cattle prices should break sharply while they have purchased feeders on hand.

Exceptionally large feed supplies and a drop in feeder cattle prices apparently induced many farmers to acquire feeders in November. In-shipments into 11 Corn Belt states in that month were 39 per cent above November 1947. For the July-November period, in-shipments were 10 per cent above the like period a year ago, all the increase occurring in November. Percentage increases in November over the like month a year ago were, for Seventh District states: Illinois, 15; Iowa, 7; Wisconsin, 5; and Michigan, 1. For Indiana, in-shipments declined nine per cent. The heavy movement of cattle into feedlots in November now indicates a larger total volume of cattle feeding than last year.

The milk-feed ratio (pounds of dairy ration equal in value to one pound of milk) in November averaged 1.48, compared to 1.16 a year earlier and the 1927-46 average for November of 1.42. The butterfat-feed price ratio in November was 22.7, compared with 20.3 a year earlier and the November 1927-46 average of 26.7. Butterfat prices have been relatively low as indicated by a butterfat-feed price ratio nine per cent below average, although the milk-feed price ratio is seven per cent above the 20-year average. Prices of dairy products relative to feed prices are much improved over a year ago, but relative to hogs and beef cattle they are considerably less favorable than the average of the past 20 years. In mid-October a pound of butterfat was equivalent in value to 2.8 pounds of live hog, compared with the record low of 2.7 pounds a year earlier and the 1927-46 average of 4.3 pounds. The butterfat-beef price ratio in mid-October was the lowest of record for the month, 38 per cent below the 1927-46 average.

The improvement in dairy product-feed price ratios encourages farmers to feed large amounts of grains to their dairy cows. The October 1 rate of feeding per head was 13 per cent above the rate a year earlier and about 10 per cent more than on that date in 1946. Milk production per cow was at a record level. But the decline in number of milk cows probably will continue so long as dairy product prices are low compared with beef cattle and hog prices.

The egg-feed ratio (pounds of feed equal in value to one dozen eggs) for November was 16.2, compared with 11.3 a year earlier and an average of 16.6 for the preceding 10 years. Apparently the efficiency with which eggs are produced has increased enough in recent years so that egg production is profitable at a lower egg-feed ratio than was formerly so. Egg production per hen on farms in October was at a record rate, indicating a heavy rate of feeding. As with dairy cows, the current heavy rates of feeding of hens provide some prompt increase in marketable supplies of products. Full response cannot be realized, however, until numbers of dairy cows and chickens are increased. Unlike the prospects for dairy cow numbers, however, farmers are raising more chickens.

In recent months the demand for chicks has been strong, and the output of chicks by commercial hatcheries in September for broiler production has been well above the year-ago level, 17 per cent larger for October and the November increase indicated to be even greater. The market supply of broilers will increase promptly, but consumers should not expect substantial increases in supplies of other poultry or eggs before the last half of 1949.

The number of sheep and lambs to be fed for the coming winter and spring market will be smaller than the number fed a year ago. The number available for feeding is small, the 1948 lamb crop being the smallest of record. More than the usual proportion of the 1948 lamb crop has been marketed for slaughter, directly from the range and pastures, thus further reducing the supply of lambs for feeding.

Total disappearance of feed grains and other concentrate feeds in the year started October 1, 1948, is estimated at 143 million tons of which 124 million tons is expected to be fed to livestock and poultry. This would exceed the amount fed in 1947-48 by 10 per cent and equal the large amount fed in 1946-47. Stocks at the end of the crop year probably will approximate 25 million tons, three times the very small stocks at the beginning of the year and over one-fourth more than the average carryover in the 1937-41 period. A carryover of this size with only average production of feed grains in 1949 would give a large supply of feeds for the 1949-50 feeding year and encourage further expansion in livestock production. The production response of livestock and livestock products, however, will be less than the feed situation would indicate except in those instances where output can be increased by heavier feeding. Substantial outlays for increased numbers of animals appear to many producers to represent unnecessary exposure to risks as to future livestock prices.

Business Conditions

A Review by the Federal Reserve Bank of Chicago

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